

ANNUAL REPORT *1941*



JEWEL TEA CO., INC. • BARRINGTON, ILLINOIS

Directors:

| | |
|---------------------|-----------------|
| HENRY S. BOWERS | M. H. KARKER |
| JOHN M. HANCOCK | C. W. KAYLOR |
| A. U. HUNT | E. E. RICHARDS |
| A. VERNON JANNOTTA | WALTER E. SACHS |
| ROBERT R. UPDEGRAFF | |

Officers:

JOHN M. HANCOCK
Chairman of the Board of Directors

M. H. KARKER
President

| | |
|---|--|
| P. B. BOYD, <i>Executive Vice Pres.—Routes</i> | A. U. HUNT, <i>Controller</i> |
| F. J. LUNDING, <i>Executive Vice Pres.—Stores</i> | T. EDW. DAVIS, <i>Secretary</i> |
| ROBERT HILTON, <i>Vice Pres.—Administration</i> | R. D. STURTEVANT, <i>Asst. Secretary</i> |
| J. M. FRIEDLANDER, <i>Treasurer</i> | C. A. LARSON, <i>Asst. Secretary</i> |
| C. B. ALLYN, <i>Asst. Controller</i> | |

Transfer Agent:

MANUFACTURERS TRUST COMPANY
55 Broad Street, New York City

Registrar:

THE COMMERCIAL NATIONAL BANK & TRUST COMPANY
OF NEW YORK
56 Wall Street, New York City

Auditors:

TOUCHE, NIVEN & CO.
Certified Public Accountants
New York and Chicago

JEWEL TEA CO., INC.

JEWEL PARK
BARRINGTON, ILLINOIS

February 12, 1942

TO THE STOCKHOLDERS:

The twenty-sixth annual report of your company for the fiscal year ended January 3, 1942 is presented herewith.

EARNINGS Net earnings for the year—after provision for taxes, depreciation, profit sharing, and reserves—were \$1,518,871.06, equal to \$30.38 per share on the 50,000 shares of preferred stock outstanding or 7.15 times the annual dividend on these shares. After deducting preferred dividend requirements of \$64,340.30 for 1941, net earnings on the common stock were \$1,454,530.76 or \$2.60 per share on the 560,000 shares issued compared with \$1,576,994.77 or \$2.82 per share in 1940. Earnings before deduction of federal income and excess profits taxes were 31.03% higher than a year ago.

SALES Total sales amounted to \$41,702,980.30, compared with \$29,231,608.46 for 1940, an increase of 42.66%. The fiscal year 1941 included 53 weeks. Excluding sales for the extra week, the increase was 39.39% over 1940.

The number of operating units was increased by 60 routes and 15 stores; 42 markets were added to new or existing stores; and the expense of starting all these units was charged to current operations. The stores which your company operates are of medium size and located conveniently to residential areas in and close to Chicago. New branches were opened by the route department in Massachusetts, Mississippi, Oregon, and Washington.

The program of expansion in number of sales units started in June 1940 was carried forward in 1941 and is responsible for some of the increase in sales. Because of war conditions the addition of routes and stores will be greatly restricted in 1942 but every effort will continue to be made to increase the sales volume per unit. Your company will open new units where our country's interests will be best served and to the extent that locations and equipment are obtainable.

Retail prices were forced upward during the year by the pressure of higher commodity costs and rising expenses of operation. Every effort was made to keep price

advances to a minimum and gross margin was reduced. Your company will continue to keep retail prices at the lowest possible levels in the interest of our customers and in keeping with the war effort.

WORKING CAPITAL Net working capital amounted to \$8,482,145.34 and the ratio of current assets to current liabilities was 4.29 to 1. Working capital was substantially increased by the proceeds from the sale of preferred shares in September 1941.

Marketable securities included the following groups of bonds at market quotations as of January 3, 1942: Federal Government obligations (not including \$1,002,000 of United States Treasury Tax Notes deducted from accrued Federal taxes on the balance sheet), \$2,066,337.23; state and municipal bonds, \$542,842.81; industrial, public utility and others, \$421,704.91. Marketable securities were individually valued at the lower of cost or market, and this resulted in a net writedown of \$52,510.70 at the year end.

INVENTORIES Your company had on hand and under contract a total of 93,099 bags of coffee on January 3, 1942, a stock sufficient to meet roasting needs for approximately 22 weeks. The cost and regularity of imports have been affected materially by the war but import items other than coffee constitute only a small portion of total volume. The supply of coffee has been adequate for all needs.

It is the policy of your company to maintain inventories sufficient for not more than three months. Exceptions are made in the case of annual pack items and where transportation and procurement uncertainties make it appear prudent or essential to carry more.

Consistent with the practice of previous years inventories were valued, and cost of sales was charged, at cost by the general principle of "first in, first out," except green coffees and unpackaged teas which were valued at actual cost by lots. Cost values of closing inventories were compared with current replacement market and were reduced thereto in every case where the cost of an item exceeded the market.

NEW BUILDINGS The new coffee processing plant and warehouse at Los Angeles was completed and placed in operation on October 20, 1941. The old building at Los Angeles has been leased pending sale. The new warehouse and assembly building for the food stores department in Chicago was occupied three weeks ago and the coffee processing plant and warehouse at Barrington will be in use within a few days.

OPERATING EXPENSES The ratio of expenses to sales was again reduced although total wages and taxes continued to increase. Buildings, machinery, equipment, and automobiles were kept in good repair and condition throughout the year. A competent firm of experts has been working for over six months to develop possible further economies in packaging materials and paper. Savings in the use of paper bags and wrapping paper have been made in the stores as a result of cooperation between employees and customers to reduce waste in furtherance of the conservation program.

The number of accidents was reduced 15% from 1940 and is at the lowest point in four years. The total cost of accidents is down 29% from last year and is the lowest since 1938.

RATIONING AND PRIORITIES Following the attack on Pearl Harbor on December 7, 1941, the Government issued orders restricting and rationing the supply of some items in general use by your company. The order of December 13, 1941 restricting receipts of sugar had a very disturbing effect on the customers and personnel of the stores department. Allowance was not made for increases in units operated, customers served, and sales since the base period. Against average receipts of 80 tons per week during October and November, receipts during January were restricted to some 40 tons per week, and even with the most rigid voluntary rationing which we started on December 9 there was not enough sugar for all customers. The amendment of the sugar order, released January 24, 1942, has proved helpful but our supply of sugar is still inadequate.

The order of December 27, 1941 restricting the sales of tires, tubes, and repair materials, and the order of January 1, 1942 placing automobiles under priority had material effect on the plans for future operations.

AUTOMOBILES A fleet of 1,809 panel delivery and supervisors' automobiles is used in the sales operation of the route department. These cars were acquired: 451 in 1941, 618 in 1940, 413 in 1939 and the remainder of 327 prior to 1939. The panel delivery cars are operated an average of 210 miles per week and ordinarily are kept in service for four years. These cars can be operated for more than four years, but at the end of that time it has heretofore been more economical to replace them. Study and action have been started to reduce speed and mileage, and to increase the care in operation of equipment, all looking to the greater conservation of automobiles and rubber. With the continuance of conditions as they exist today, including the availability of repair materials, it is estimated

that the fleet can be kept in substantially complete operation for a minimum of two and one-half years without new automobiles or new rubber.

EMPLOYEES There were 4,348 permanent employees at the end of the year compared with 3,875 at the end of 1940. The increased demand for people by both the armed forces and industry had marked effect on the rate of turnover and upon the availability of men for our work. In some areas it has been found desirable to employ women for route sales work. The policy, started two years ago, of hiring older men to fill vacancies has proved to be helpful in maintaining continuous service to our customers.

As of January 3, 1942 there were 124 Jewel employees in the armed services.

The members of Jewel Retirement Estates had to their credit in the trust fund total assets valued at approximately \$1,081,519 on January 5, 1942, and 1,955 employees, or 79.34% of those eligible, were participants in the plan.

RESERVES Assets have been conservatively valued and reserves have been provided by the application of the same principles in use for many years.

A reserve of \$115,000 for inventory protection was established out of earnings for the year against the time when commodity prices may decline and thus necessitate inventory writedowns.

TAXES The following table shows the steady and substantial growth of your company's tax bill in recent years:

| TAX COST | | | |
|----------|------------|---|----------------------------------|
| Year | Total | Per Share on 560,000 Shares of Common Stock | Per Annum Per Person Employed |
| 1929 | \$ 274,579 | \$.49 | \$ 116.94 |
| 1932 | 248,457 | .44 | 87.57 |
| 1937 | 991,908 | 1.77 | 270.70 |
| 1938 | 1,100,415 | 1.97 | 298.22 |
| 1939 | 1,137,256 | 2.03 | 313.71 |
| 1940 | 1,440,169 | 2.57 | 376.23 |
| 1941 | 2,430,380 | 4.34 | 594.72 |

Any further increases in taxes will probably be directly and proportionately reflected in lower net earnings.

DIRECTORS AND OFFICERS C. W. Kaylor retired as vice president of the company on February 28, 1941, and F. M. Kasch retired as vice president and director on July 12, 1941. These men withdrew from service for reasons of health. Each of them contributed many years of loyal and constructive service to the business, and they are held in the highest respect and regard by the Jewel organization.

SURPLUS The fractional first quarterly dividend of \$.543056 per share for the period from September 15, 1941 to October 31, 1941, inclusive, was paid on the preferred stock and dividends aggregating \$2.40 per share were paid on the 560,000 shares of common stock issued. The surplus account was closed with a balance of \$2,394,902.91.

OUTLOOK The preparation and distribution of food is an essential industry in war time as in peace. There has never been a time when the health of the people was more important to the country or their comfort more essential to morale. Your company will do everything within its power to assure continuity of the supply of healthful foods in the areas in which it operates.

It is inescapable that your company will be affected by the new and greater uncertainties and difficulties which all civil business must face while the nation is engaged in war. No amount of foresight and preparation can insure freedom from the effects of priorities, rationing, price controls, and commandeering in the public interest. This business must subordinate and adjust itself to the national effort. The real basis for confidence in the future of your company lies in the intelligence, alertness, and flexibility of the personnel. They have been resourceful and energetic in building a successful record in the past, and we believe that they can be relied upon to meet the changes of the future.

Grateful acknowledgment is made of the enthusiasm, cooperation and fine understanding among our fellow-workers which made it possible to bring better living to more people in 1941.

For the Board of Directors:

John M. Hancock
Chairman

M. M. Barker
President

JEWEL TEA

(A New York)

BALANCE SHEET -

ASSETS

Current Assets:

| | |
|--|-----------------|
| Cash on hand, demand and time deposits..... | \$ 3,634,833.51 |
| Marketable securities at cost or market, whichever is lower, and interest (market quotation \$3,030,884.95)..... | 3,028,349.33 |

Accounts receivable:

| | |
|---|------------|
| Trade customers, less reserve of \$12,331.26 for doubtful accounts. \$ 226,563.13 | |
| Miscellaneous, less reserve of \$2,278.34 for doubtful accounts. 63,978.05 | 290,541.18 |

Inventories at cost or market, whichever is lower:

| | | |
|--------------------------|----------------|-----------------|
| Raw materials | \$1,348,732.81 | |
| Finished groceries | 2,126,998.39 | |
| Premiums | 632,491.99 | |
| | | 4,108,223.19 |
| | | \$11,061,947.21 |

Other Assets:

| | | |
|---|-------------|------------|
| Loans to employees..... | \$ 9,658.45 | |
| Cash surrender value of life insurance policies..... | 90,138.50 | |
| Miscellaneous investments, deposits and contracts (net), less reserve of \$10,000.00..... | 39,153.82 | 138,950.77 |

Jewel Employees Trust Fund Assets:

| | |
|--|------------|
| Investments at cost or market, whichever is lower, and cash (Jewel employees surety deposits, per contra)..... | 251,755.94 |
|--|------------|

Deferred Charges:

| | | |
|--|---------------|--------------|
| Premiums (at cost) advanced to customers, less reserve of \$54,756.23 for doubtful accounts..... | \$ 935,437.36 | |
| Unexpired insurance, expense supplies, etc..... | 243,870.60 | 1,179,307.96 |

Capital Assets:

(Appraised as of December 31, 1932, when book values were reduced \$404,537.66 to basis of current values, plus subsequent additions at cost)

| | | |
|---|----------------|--------------|
| Land | \$ 539,122.81 | |
| Buildings | \$2,215,874.00 | |
| Machinery, furniture and fixtures, at plants..... | 612,984.48 | |
| Branch and store equipment..... | 2,737,143.95 | |
| | \$5,566,002.43 | |
| Less reserve for depreciation..... | 2,007,118.36 | 3,558,884.07 |
| | | 4,098,006.88 |

Good Will.....

| | |
|--|-----------------|
| | 1.00 |
| | \$16,729,969.76 |

CO., INC.

Corporation)

JANUARY 3, 1942

LIABILITIES

Current Liabilities:

| | | |
|---|---------------------|------------------|
| Letters of credit and acceptances..... | \$ 285,639.68 | |
| Accounts payable | 1,086,343.52 | |
| Accrued wages and bonuses..... | 475,800.52 | |
| Provision for contribution to Jewel Retirement Estates..... | 204,843.59 | |
| Federal, state and other taxes accrued..... | \$ 1,501,131.31 | |
| Less United States Treasury Tax Notes, and interest..... | <u>1,002,000.00</u> | |
| | | 499,131.31 |
| Sundry accruals | | <u>28,043.25</u> |
| | | \$ 2,579,801.87 |

Jewel Employees Surety Deposits:

| | |
|---|------------|
| Principal and interest at the rate of 2% per annum guaranteed by Jewel Tea Co., Inc. (Jewel employees trust fund assets, per contra) | 251,755.94 |
|---|------------|

Reserves:

| | | |
|--|-------------------|------------|
| Contingencies and inventory valuation..... | \$ 400,000.00 | |
| Automobile accident and other self-insured losses..... | 230,144.21 | |
| Alterations, improvement, development and advertising..... | <u>197,513.25</u> | |
| | | 827,657.46 |

Capital Stock and Surplus:

| | | |
|--|-----------------------|------------------------|
| Preferred stock, 4¼% cumulative, \$100.00 par value, redeemable 1,000 shares per annum beginning in 1943 at maximum price of \$110.00 per share; entitled to regular redemption prices at voluntary liquidation and \$100.00 per share at involuntary liquidation, all plus accrued dividends: | | |
| Authorized and issued, 50,000 shares..... | \$ 5,000,000.00 | |
| Common stock, no par value: | | |
| Authorized | 600,000 shares | |
| Unissued | 40,000 shares | |
| Issued | <u>560,000</u> shares | \$4,935,462.34 |
| Transfer to capital as explained in earned surplus account | <u>829,572.67</u> | |
| | | 5,765,035.01 |
| | | <u>\$10,765,035.01</u> |
| Earned surplus | | <u>2,394,902.91</u> |
| | | \$13,159,937.92 |
| Less 4,174 shares of common stock in treasury at cost, acquired for sale and distribution to employees..... | <u>89,183.43</u> | |
| | | 13,070,754.49 |

Contingent Liabilities:

| | | |
|---|---------------------|------------------------|
| Under contracts for coffee not shipped at January 3, 1942..... | <u>\$348,921.37</u> | |
| | | <u>\$16,729,969.76</u> |

JEWEL TEA CO., INC.

INCOME ACCOUNT

For the Fifty-three Weeks Ended January 3, 1942

Net Sales \$41,702,980.30

Deduct:

| | | |
|---|-----------------|----------------------|
| Cost of sales—including raw materials, labor, supplies, operating, selling and administrative expenses, etc..... | \$36,416,310.80 | |
| Depreciation—of buildings, machinery, furniture and fixtures, and automobiles | 482,488.60 | |
| Taxes—federal income (\$730,390.31), federal excess profits (\$384,407.89), state income, franchise, capital stock, excise, federal old age and survivors' benefit, federal and state unemployment, sales, use, occupational, gasoline, motor carrier, occupancy, personal property and real estate taxes, and automobile and business licenses | 2,430,380.93 | |
| Provision for doubtful accounts..... | 144,052.60 | |
| Rents | 521,099.42 | |
| Maintenance and repairs..... | 184,121.82 | |
| Provision for contribution to Jewel Retirement Estates..... | 204,843.59 | |
| Reserves—inventory valuation | 115,000.00 | |
| | | <u>40,498,297.76</u> |
| | | \$ 1,204,682.54 |

Add:

Other income:

| | | |
|---------------------------------|--------------|-------------------|
| Interest on securities..... | \$ 51,012.08 | |
| Other miscellaneous income..... | 310,095.11 | |
| | | <u>361,107.19</u> |
| | | \$ 1,565,789.73 |

Deduct:

| | |
|---|-----------|
| Provision to reduce marketable securities to the basis of cost or market, whichever is lower, less profits (net) on sales of securities | 46,918.67 |
|---|-----------|

Net Earnings for the Year: (\$30.38 per share of preferred stock) transferred to earned surplus..... \$ 1,518,871.06

Preferred Stock Dividend Requirements for the period from September 15, 1941 to January 3, 1942, inclusive..... 64,340.30

Net Earnings Available for Common Stock: (\$2.60 per share) \$ 1,454,530.76

The above income account and the accompanying balance sheet and earned surplus account of Jewel Tea Co., Inc., are in accordance with and correctly prepared from the books of the Company, and exhibit, in my opinion, a true statement of the financial position of the Company on January 3, 1942, and the results of its operations for the year then ended.

Barrington, Illinois, February 6, 1942.

A. U. HUNT, *Controller.*

JEWEL TEA CO., INC.

EARNED SURPLUS ACCOUNT

For the Fifty-three Weeks Ended January 3, 1942

Earned Surplus, December 28, 1940 (including \$185,164.92 arising from sale and distribution of common stock to employees and others from 1926 to December 28, 1940)

\$2,984,450.56

Add:

| | | |
|---|---------------|-----------------------|
| Net earnings for the year | | 1,518,871.06 |
| Adjustments arising from sale and distribution of common stock to employees | | 24,035.01 |
| Premium from sale of preferred stock | \$ 112,500.00 | |
| Less expenses of issue | 56,500.00 | |
| Balance of premium, transferred to common stock account (see below) | | 56,000.00 |
| Unclaimed dividends for the years 1917 to 1933, inclusive | | 1,777.58 |
| | | <u>\$4,585,134.21</u> |

Deduct:

| | | |
|---|--------------|-----------------------|
| Dividends on 4¼% cumulative preferred stock from September 15, 1941 to October 31, 1941, inclusive (\$.543056 per share) | \$ 27,150.83 | |
| Dividends on common stock (\$2.40 per share) | 1,333,507.80 | |
| Transfers to common stock account, as authorized by Board of Directors, of \$209,199.93 arising from sale and distribution of common stock from 1926 to 1941, inclusive; surplus investment of \$564,372.74 for capital purposes, Food Stores Department; and balance of premium of \$56,000 on sale of preferred stock | 829,572.67 | |
| | | <u>2,190,231.30</u> |
| Earned Surplus, January 3, 1942 | | <u>\$2,394,902.91</u> |

TO THE BOARD OF DIRECTORS, JEWEL TEA CO., INC.:

We have examined the balance sheet of Jewel Tea Co., Inc. as of January 3, 1942, and the statements of income and surplus for the fifty-three weeks then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of Jewel Tea Co., Inc. at January 3, 1942, and the results of its operations for the fifty-three weeks, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois, February 7, 1942

TOUCHE, NIVEN & CO., *Certified Public Accountants*

Your company is engaged in an essential service—the distribution of wholesome food to a nation hard at war. Jewel people will continue to devote their full energies to the job for which they are best fitted and pledge the utmost economy and conservation in the performance of their work.



BUY UNITED STATES



DEFENSE BONDS!